

STATE ADMINISTRATION

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with legislative analysis and planning, research, and liaison with local governments. The OPR also oversees programs for small business advocacy, rural policy, and environmental justice. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and overseeing the California Service Corps.

The Governor's budget funds 72.3 positions and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$3,843	\$8,887	\$5,044	131.3
Federal Trust Fund	38,748	37,802	-946	-2.4
Reimbursements	1,472	403	-1,069	-72.6
Total, Fund Source	\$44,063	\$47,092	\$3,029	6.9
Programs				
State Planning and Policy Development	\$4,842	\$8,909	\$4,067	84.0
California Service Corps	39,221	38,183	-1,038	-2.6
Total, Programs	\$44,063	\$47,092	\$3,029	6.9

Key Budget Adjustment

Americorps and Conservation Corps Grants. The Governor's budget includes \$5 million General Fund to reinstate an appropriation to the California Service Corps for the purpose of funding grants to local and state operated Americorps and Conservation Corps programs. Legislation enacted in 2003 had suspended this appropriation for three years.

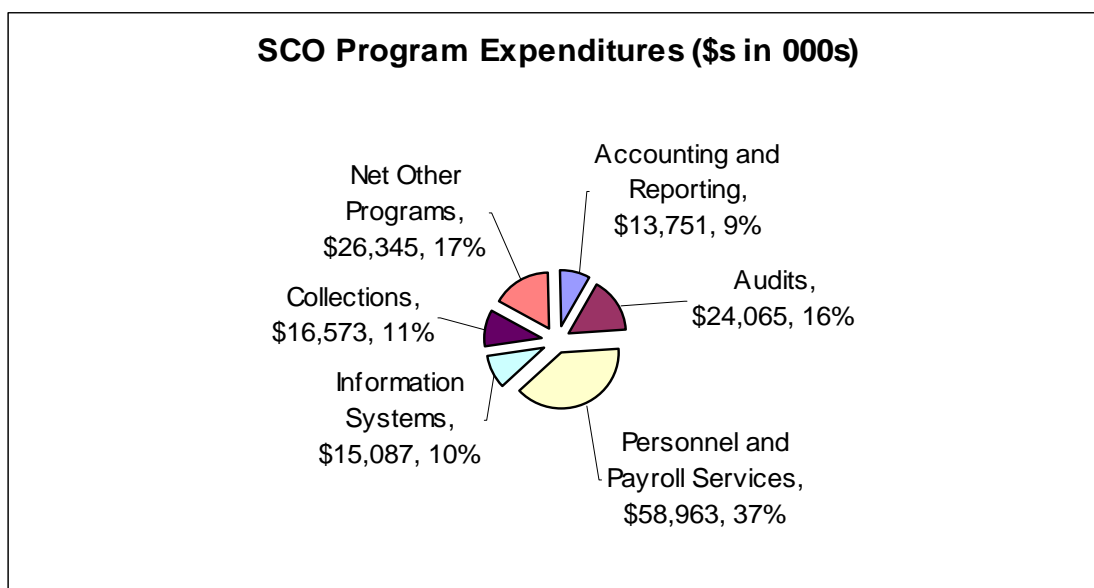
0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs.

The Governor's budget funds 1,142.3 positions (including 54.7 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$74,734	\$95,863	\$21,129	28.3
Federal Trust Fund	1,252	1,281	29	2.3
Reimbursements	33,918	35,762	1,844	5.4
Other Funds	17,044	21,878	4,834	28.4
Total, Fund Source	\$126,948	\$154,784	\$27,836	21.9

The chart below shows SCO expenditures by function:



Key Budget Adjustments

Human Resource Management System—21st Century Project (HRMS). The Governor's budget includes an augmentation of \$37.5 million (\$20.1 million General Fund) and 46.5 one year limited-term positions to implement the design, development, and initial rollout phases of the HRMS. This workload is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems. The HRMS will also include a statewide time and attendance capability, greatly enhancing the Controller, Administration, and Legislature's fiscal oversight abilities. For example, it is expected that the system will capture actual salary savings at each department, replacing the arbitrary five percent standard used statewide today. This project was first funded in the 2004-05 budget year.

Apportionments Payment System. The budget includes \$776,000 (special funds) for a third year of funding to overhaul the state's Apportionment Payment System. The existing system has become dangerously overburdened and prone to breakdown, endangering a timely distribution of apportionments to local agencies. After this final year of system replacement, ongoing costs to maintain the system are expected to be \$62,000. Significant workload savings are expected from replacing the existing system, a savings the Legislature will seek to quantify.

Unclaimed Property Program Staffing. The budget includes \$554,000 General Fund and 7.2 positions to handle increased workload associated with notifying owners of unclaimed property, facilitating auctions of safe deposit boxes, and providing operational support to Unclaimed Property Program management. Based on the significant General Fund revenues identified by this program in recent years, the Legislature may wish to clarify how these positions will affect revenues, as well as service to citizens due unclaimed property.

Bank Reconciliation System Project. The budget includes \$710,000 (\$308,000 General Fund) to replace the State Controller's existing bank reconciliation system. This system tracks and issues bank warrants for the state. The Administration asserts that the technology of the current system is obsolete and technicians to operate the system increasingly scarce.

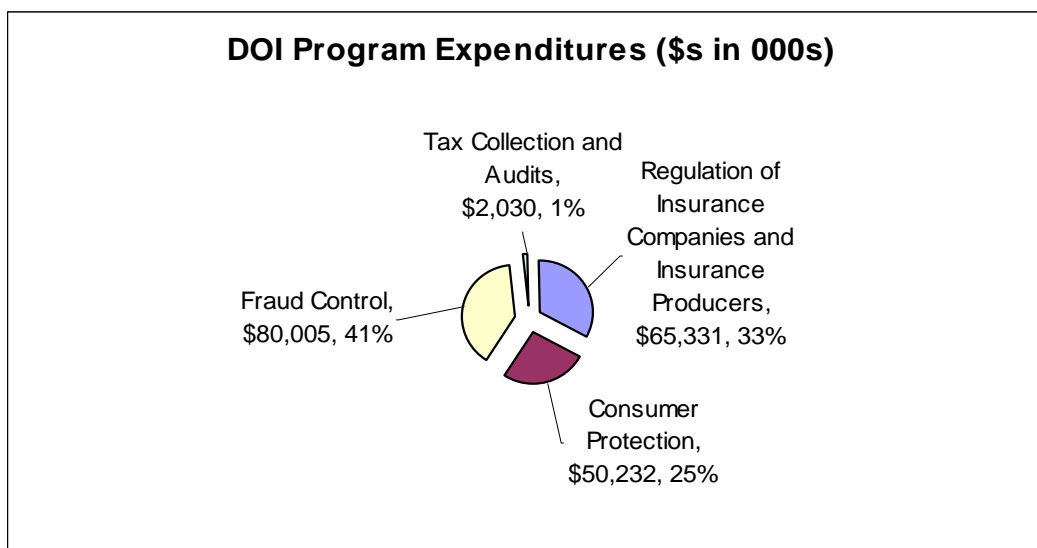
0845 Department of Insurance

Under the leadership of the state's Insurance Commissioner, the Department of Insurance regulates the largest insurance market in the United States with over \$115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and those insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and combats insurance fraud.

The Governor's budget funds 1272.9 positions (including 13 new positions) and expenditures as follows:

Summary of Expenditures

(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
Insurance Fund	\$202,028	\$197,348	-\$4,680	-2.3
Reimbursements	250	250	0	0.0
Total, Fund Source	\$202,278	\$197,598	-\$4,680	-2.3

**Key Budget Adjustments**

Office of Administrative Hearings. The budget includes \$837,728 (Insurance Fund) for increased costs associated with a higher administrative hearing workload conducted by the Department's legal office. The cost of administrative hearings has grown by 63 percent since 2003-04. The number of hearings has also increased; from 338 in 2004-05 to an estimated 730 in 2006-07.

Workers' Compensation Research Funding. The budget includes \$1 million (Insurance Fund) for a study to measure the extent of workers' compensation insurance fraud and to identify emerging fraud trends. The information gleaned from this research would be used to focus investigative and prosecution efforts, as well as identify areas where more resources may be needed. Funding for this study will come from a one-time fee on employers.

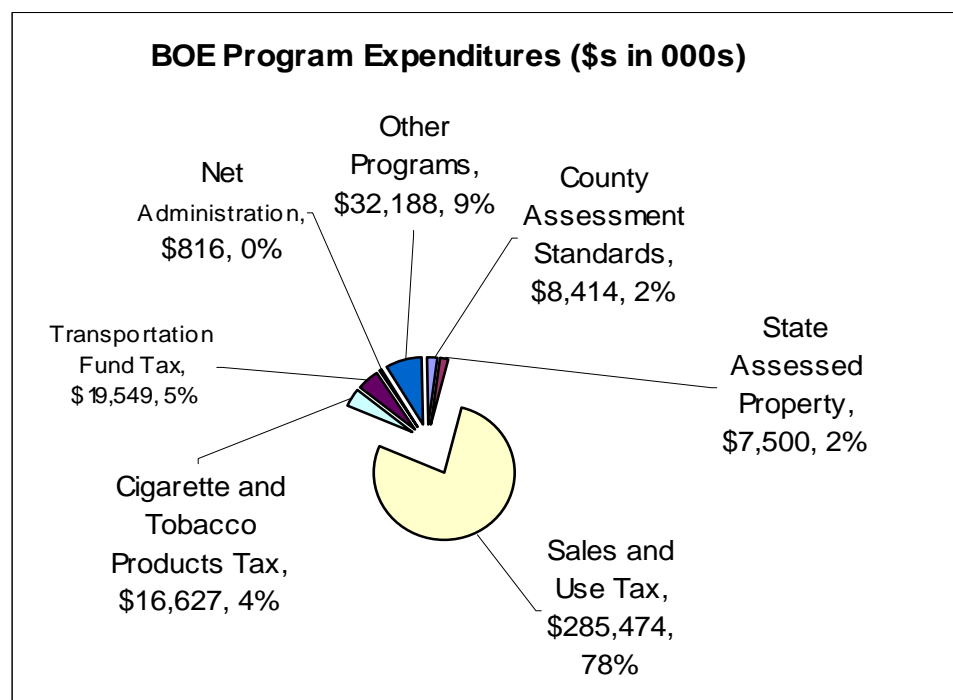
0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board, and the Employment Development Department are the state's major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of local

property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws.

The Governor's budget funds 3,802.9 positions (including 64.5 new positions) and budget expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$222,822	\$212,815	-\$10,007	-4.5
Motor Vehicle Fuel Account	20,159	19,549	-610	-3.0
Federal Trust Fund	700	1167	467	66.7
Reimbursements	103,870	104,716	846	0.8
Other Funds	31,055	32,321	1,266	4.1
Total, Fund Source	\$378,606	\$370,568	-\$8,038	-2.1



Key Budget Adjustments

Retail Licensing Enforcement. The Administration proposes \$1.1 million General Fund, \$571,000 special fund, and 15 positions for the Board to identify and register businesses that operate without paying applicable sales and use taxes. Revenues of \$12.6 million are projected, a nine-to-one benefit-cost ratio. Given the considerable fiscal benefits of this enforcement

measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

Agricultural Inspection Station Leads. The Governor proposes \$811,000 General Fund, \$632,000 special fund, and 16 positions for the Board to identify property that is brought into the state without the payment of sales and use taxes. The program will run from California Department of Food and Agriculture-operated agricultural inspection stations. Revenues of \$7.4 million are projected, a six-to-one benefit-cost ratio. Given the considerable fiscal benefits of this enforcement measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

Enforcement of Consumer Purchases of Tobacco Products from Out-of-State Sellers. The Administration proposes \$1.8 million and 20 positions to establish a program to recoup state tax revenues on cigarette and tobacco sales on the Internet and through mail orders. Revenues of \$33.8 million are projected in the budget year, an 18-to-1 benefit-cost ratio. Given the considerable fiscal benefits of this enforcement measure, the Legislature may wish to carefully verify the benefits described and whether additional resources would be beneficial to the state.

Vehicle, Vessel, and Aircraft Use Tax Payments. The Administration proposes to extend, for one year only, the requirement that use tax be paid if a vehicle, vessel, or aircraft is brought into the state within 12 months of purchase. Approximately \$35 million in General Fund revenues are attributed to this extension of law which is set to expire in 2006-07. If statute is not extended, purchasers of vehicles, vessels, or aircraft outside the state and brought into the state within only 90 days after purchase are required to pay the use tax. The Legislature will want to carefully evaluate the effect of the 12 month law change, relative to 2003-04 compliance when the 90-day rule was last in effect.

Issue

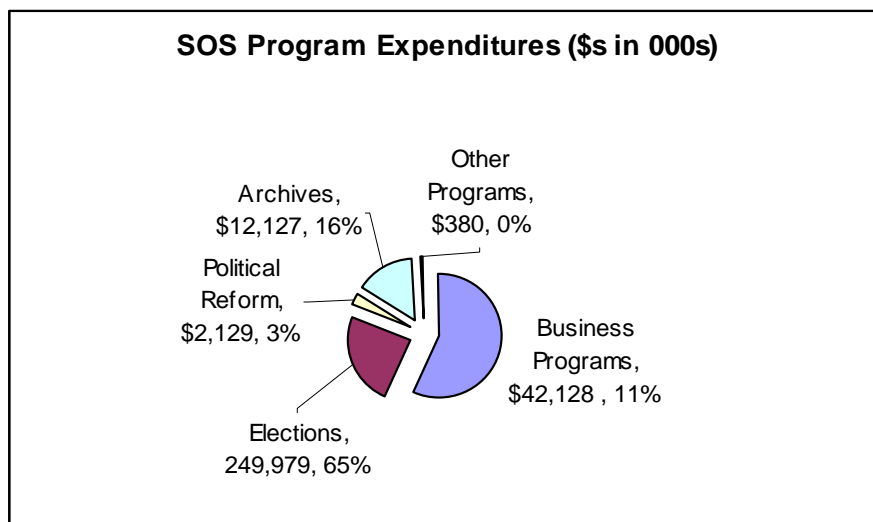
Tax Agency Consolidation. The California Performance Review and Legislative Analyst's Office (among others) have in recent years proposed that the two main tax agencies (BOE and FTB) consolidate some functions. One common proposal would involve "virtual" consolidation of some of the online features of both agencies and computer systems common to both departments. For example, a simple web portal could be created for taxpayers attempting to figure out where to pay a tax or seek a license (California's tax collectors and licensing agencies include not only FTB and DMV, but also the Employment Development Department, Department of Motor Vehicles, Department of Alcoholic Beverage Control, among others). The Legislature may wish to explore that option and other measures to demystify taxpayers' encounter with a tax agency, as well as reduce departmental redundancies.

0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary law and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, and Information Technology and Management Services Divisions.

The Governor's budget funds 484.5 positions (including 31 new positions) and budget expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$86,117	\$32,040	-\$54,077	-62.8
Secretary of State's Business Fees	33,785	34,446	661	2.0
Federal Trust Fund	254,708	1,745	-252,963	-99.3
Reimbursements	7,347	7,339	-8	-0.1
Victims of Corporate Fraud Compensation	1,600	1,624	24	1.5
Total, Fund Source	\$383,557	\$77,194	-\$306,363	-79.9



Key Budget Adjustments

Help America Vote Act (HAVA) Expenditures. The Governor's budget does not incorporate the approved spending plan for over \$200 million in federal HAVA funds. These funds were to be used for voter outreach, a statewide voter database, voting machine replacement, among other voter-related activities. The expenditure plan was jointly developed by the Secretary of State's office, Administration, and Legislature. Particularly in light of past delays by the Secretary of State in expending HAVA funds (and the illegal expenditure of some), the Legislature will want to ascertain the reason for the delay and scrutinize the expenditure plan.

November 2005 Special Election Costs. The proposed budget includes \$54 million General Fund for the Governor's special election: \$45 million to reimburse counties and \$9 million to reimburse the Secretary of State. As a current year funding proposal, separate statutory authority will be necessary before these expenditures can be paid back. The Administration asserts that these funds must be repaid expeditiously to enable implementation of the June 2006 primary election.

Notary Public Application. The budget includes \$3.1 million (Business Fees Fund) and 30 positions to augment the Secretary of State's capacity to process notary applications and conduct background checks. The Legislature last funded an augmentation for notary activities in 2004-05 and will want to explore how that augmentation affected the workload defined at that time.

Forensic Leak Assessment and Security System Replacement. The budget includes \$625,000 (Business Fees Fund) to conduct a forensic leak assessment and replace the security monitoring system at the Secretary of State and Archives Building complex. Similar to the Board of Equalization Building on N Street in Sacramento, the Secretary of State has encountered water intrusion problems during heavy weather, resulting in concerns about mold-related illnesses.

0950 State Treasurer's Office

The State Treasurer, a constitutionally established office, provides banking services for State government with the goals of minimizing interest and service costs, and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the State; investment of temporarily idle State monies; administration of the sale of State bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other State agencies.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

The Governor's budget funds 222.8 positions (with no new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$6,068	\$6,132	\$64	1.1
Reimbursements	16,533	16,637	104	0.6
Total, Fund Source	\$22,601	\$22,769	\$168	0.7

Key Budget Adjustment

The Governor's budget includes no adjustments to the State Treasurer's Office.

STATE AND CONSUMER SERVICES AGENCY

This section includes the budgets of the Science Center; the Department of Consumer Affairs (including all bureaus, boards programs and divisions); the Department of Fair Employment and Housing; the Franchise Tax Board; the Department of General Services; the State Personnel Board; the Public Employees' Retirement System; the State Teachers' Retirement System; and the Department of Technology Services. Departments with major budget change proposals are highlighted.

1110 & 1111 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 27 semi-autonomous boards and 11 bureaus and programs that regulate over 230 professions. The 2006-07 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals \$398.5 million (\$785,000 General Fund), which is an increase of \$13.4 million from the current year.

Major Budget Proposals – Boards (1110)

Medical Board. The Governor proposes the following three augmentations for the Medical Board.

- **Implementation of Independent Monitor's Recommendations.** The Administration requests \$3.8 million and 10 positions to implement most of the key recommendations made by the Board's Enforcement Monitor. This request is associated with the fee increase and policy changes enacted with SB 231 (Chapter 674, Statutes of 2005).
- **Diversion Program.** The Administration requests \$181,000 and two positions to address workload in the Diversion Program, which identifies and rehabilitates physicians impaired due to the abuse of drugs or by a mental or physical illness.
- **Enforcement Program.** The Administration requests \$169,000 to fund cost increases for expert witnesses, which are used to prosecute violations of the Medical Practice Act.

Various Boards – Augmentations for Cost/Workload Growth. Various Boards request the augmentation of special fund support to cover cost increases and/or growth in workload. In some cases, the augmentations restore positions lost from vacant position eliminations.

- Board of Vocational Nursing and Psychiatric Technicians (\$168,000 and 4.0 positions)
- Architects Board (\$27,000 and 0.5 position)
- Athletic Commission (\$290,000 and 4.5 positions)
- Board of Barbering and Cosmetology (\$608,000 and 4.0 positions – two requests)
- Board of Geologists and Geophysicists (\$185,000 and 1.0 positions – two requests)
- Physician Assistant Committee (\$38,000 and no positions)
- Osteopathic Medical Board (\$28,400 and 0.5 position – two requests)
- State Board of Pharmacy (\$208,000 and 2.5 positions)
- Board for Professional Engineers and Land Surveyors (\$46,000 plus redirection and 4.0 positions – two requests)
- Structural Pest Control Board (\$126,000 and 1.0 positions – two requests)
- Speech-Language Pathology & Audiology Board (\$18,000 and 0.3 positions)

Moving Costs. The Administration requests an augmentation of \$1.7 million for moving costs for various Boards located on Howe Avenue in Sacramento; and an augmentation of \$25,000 for the Occupational Therapy Board to move to a larger space on North Third Street in Sacramento.

Major Budget Proposals – Bureaus (1111)

Bureau for Private Postsecondary & Vocational Education – Expenditure Cut. The Governor proposes a \$194,000 expenditure cut for the Bureau, which is charged with regulating private degree, non-degree, and registered postsecondary and vocational institutions. This reduction is proposed to reduce expenditures to expected revenue – no detail concerning the affect of the reduction on the functions of the Bureau is provided with the request.

Bureau of Home Furnishing & Thermal Insulation – Outsourcing. The Governor proposes an augmentation of \$213,000 to support external contracts for laboratory workload. Lab work is not currently outsourced; however, the Bureau indicated it does not have the equipment and staff to perform all the necessary tests. The Administration indicates it would cost \$664,000 to perform this same workload in-house.

Various Bureaus – Rent Reduction. The Governor proposes a reduction of \$1.3 million due to ongoing savings from the relocation of the Department’s headquarters facility.

Various Bureaus – Augmentations Related to Enacted Legislation. The Governor proposes augmentations associated with recently enacted legislation for the following bureaus:

- Dental Board of California. The Administration requests a \$76,000 augmentation for ongoing workload created by AB 1386 (Chapter 539, Statutes of 2005), which involves the administration of the Oral Conscious Sedation Program.
- Bureau of Automotive Repair. The Administration requests a \$3.8 million augmentation to implement the provisions of AB 383 (Chapter 565, Statutes of 2005), which expands consumer eligibility to receive financial assistance from the State to repair a high polluting vehicle that fails its biennial Smog Check inspection.

- Bureau of Security and Investigative Services. The Administration requests a \$1.4 million and 20 position augmentation to implement the provisions of SB 194 (Chapter 655, Statutes of 2005), which mandates the regulation and licensure of specified private unarmed security officers.

iLicensing System. The Governor requests an augmentation of \$3.7 million and 8.9 positions for the purposes of replacing its existing on-line professional licensing system with a new “iLicensing” system. The Administration proposes Control Section 4.55 to allow the Director of Finance to increase appropriations for DCA’s boards and bureaus to fund this system (up to a total of \$3.7 million).

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes total expenditures of \$20.7 million (\$15.2 million General Fund), a \$1.6 million increase from the current year.

Major Budget Proposals

Staffing Augmentation. The Governor proposes a \$1.0 million (General Fund) and 12 position augmentation for employment discrimination enforcement to investigate more complaints.

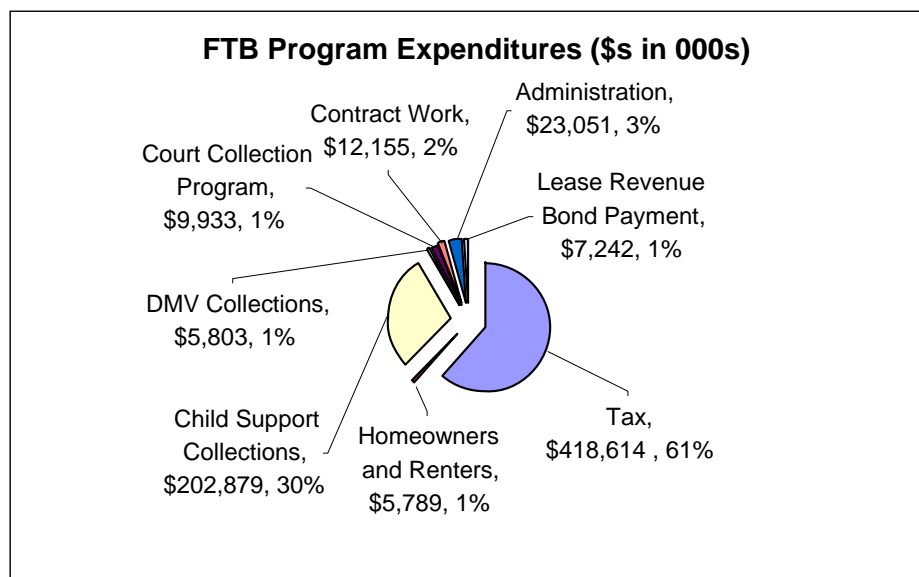
Web-Based Appointment Scheduling. The Governor proposes a \$464,000 (General Fund) and 1.9 position augmentation to automate its appointment intake scheduling and “Right to Sue” applications.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

The Governor's budget funds 5,160.4 positions (including 32.5 new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$514,417	\$499,271	-\$15,146	-2.9
Motor Vehicle Account	1,983	2,012	29	1.5
Motor Vehicle License Fee Account	3,739	3,791	52	1.4
Court Collection Account	6,045	9,933	3,888	64.3
Reimbursements	170,891	147,307	-23,584	-13.8
Other Funds	-176	101	277	0.0
Total, Fund Source	\$696,899	\$662,415	-\$34,484	-4.9



Key Budget Adjustments

Teacher Retention Tax Credit. The Governor's budget extends the suspension of the Teacher Retention Tax Credit for one year, generating a savings of \$200 million General Fund. The tax credit provides up to \$1,500 to credentialed teachers, depending on their years of service. This credit was suspended in 2002 and again in 2004 and 2005.

Court Ordered Debt Program Expansion. The budget proposes \$3.84 million (Court Collections Fund) and 31 positions to augment for one year funding for the Court Ordered Debt (COD) Expansion Project, pursuant to Chapter 380, Statutes of 2004 (Escutia). That bill requires the FTB to expand collection activities on delinquent court-imposed debts referred by state and local agencies. Anticipated collections from this project in the budget year are \$17.6 million to counties and state special funds.

California Child Support Automation System (CCSAS) Reduction. The budget includes a reduction of \$33.8 million (\$10.2 million General Fund) to reflect a revised implementation and management plan for the CCSAS. Savings are attributable to revised printing, training, and consultant service needs. The project is on schedule and full implementation expected in September 2008.

Issues

Current Year Unallocated Reduction. The 2005-06 Budget Act included an unallocated reduction of \$7.84 million to the FTB's baseline budget. During budget hearings, the FTB was unable to say with certainty how those reductions would occur. Considering the significance of FTB activities as the primary revenue collection agency, the Legislature may wish to ascertain where those reductions occurred, how the decision to cut was made, and the indirect or direct impact on revenue collection activities.

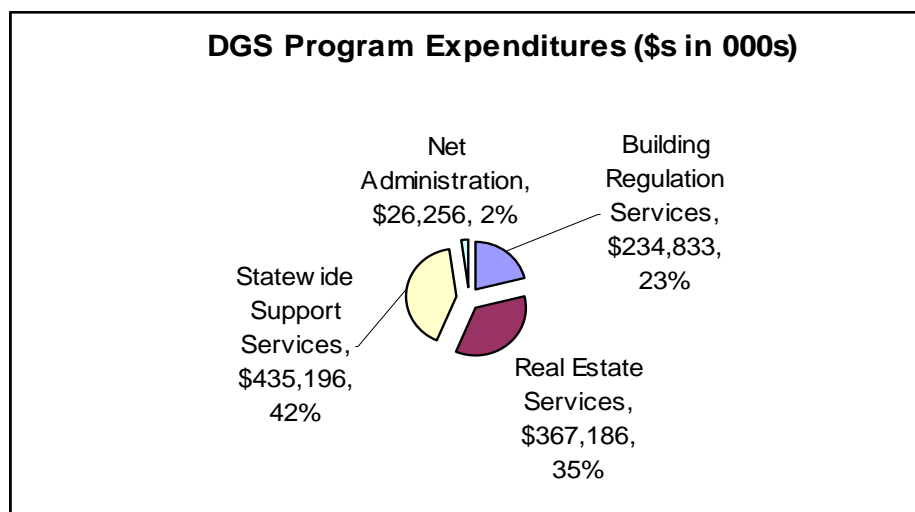
Staffing Augmentation for Revenue Collections. The Legislature added more than \$3 million in current year funding for collections, processing, and auditing activities. Anticipated revenues are approximately \$20 million. Based on this considerable return, the Legislature may wish to confirm that this considerable benefit-cost return was borne out and, if so, what additional resources may be added to enhance FTB tax administration activities.

1760 Department of General Services

The Department of General Services (DGS) provides management review and centralized support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the state departments' procurement of materials, communications, transportation, printing, and security.

The Governor's budget funds 3638.8 positions (including 12 new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$15,146	\$331	-\$14,815	-97.8
State Emergency Telephone Number Account	144,893	177,145	32,252	22.3
State Motor Vehicle Insurance Account	29,241	29,892	651	2.2
Public School Planning, Design, & Construction Review Revolving Fund	31,837	32,027	190	0.6
Architecture Revolving Fund	39,011	38,818		
Service Revolving Fund	712,181	747,846	35,665	5.0
Other Funds	30,716	28,933	-1,783	-5.8
Total, Fund Source	\$1,003,025	\$1,054,992	\$51,967	5.2



Key Budget Adjustments

Williams Settlement. The budget includes \$14.1 million General Fund to pay for the settlement of the case *Williams et al. v. State of California, et al.* (County of San Francisco Superior Court, Case Number 312236). Pursuant to Chapter 124, Statutes of 2005 (AB 351, Chu), the state must abide by the judgment in that case by providing public school students with equal access to instructional materials, safe and decent school facilities, and qualified teachers.

Transfer from Property Acquisition Law (PAL) Account. The Administration proposes to shift \$12 million from the PAL Account to the General Fund. The Legislature will want to

carefully consider the programmatic impact of sweeping these special funds to the General Fund.

Capital Outlay Projects – Structural Retrofit. The budget proposes \$3.7 million General Fund for preliminary plans and working drawings necessary to implement the structural retrofit of nine state facilities. The affected state facilities are: Department of Veterans Affairs Yountville East Ward; Department of Corrections Tehachapi Chapels Facility; Department of Mental Health State Hospital (Norwalk) Wards 206 and 208; National Guard Armory in Stockton; California Correctional Center Vocational Building in Susanville; Vacaville Correctional Medical Facility Wings U, T, and V; California Correctional Institute for Women Infirmary in Frontera; California Correctional Institute for Women Clinic in Frontera; and Department of Corrections Jamestown Buildings E and F. Considering that these expenditures are for plans only, the eventual construction costs are expected to be in the tens to hundreds of millions of dollars.

Procurement Division/Interagency Support Division Realignment. The budget includes the programmatic transfer of \$6.9 million (Service Revolving Fund) and 54.6 positions from the Procurement Division to the Interagency Support Division. The affected positions work with property reutilization, surplus property sales, transportation management, transit storage, and federal surplus property programs.

Excess Expenditure Authority Adjustment. The budget includes a reduction of \$7.8 million (special funds) to recognize operating expense savings resulting from recent personnel reduction measures, including Control Section 31.60 of the Budget Act of 2002 and Control Section 4.10 of the Budget Act of 2003.

Building and Property Management Special Repairs. The budget includes \$2.5 million (Service Revolving Fund) to create a permanent funding source to complete special repairs and deferred maintenance in Building Rental Account buildings.

Emergency Telephone—Enhanced Wireless Service. The budget includes \$32 million in expenditure authority for a local assistance appropriation to provide enhanced wireless services for 911 calls. This service will mean better identification of callers and improved cooperation between the CHP (who currently receives the most 911 calls) and the local Public Safety Answering Points. The rollout of enhanced 911 services has been delayed for years due to evolving technology, regulatory issues, and scheduling problems. Given the history of delay and extended spending timelines, the Legislature will want to carefully consider the reliability of the schedule and ways to facilitate implementation of this valuable service.

Issue

Reducing State Travel Costs by Booking Online. Based on a CPR recommendation and research by the department, the Legislature augmented DGS to allow establishment of a statewide travel portal. This action was meant to centralize in-state airline ticket bookings to save costs and encourage those ticket bookings at least two weeks in advance. The Legislature directed the Director of DGS to evaluate this portal after one year and recommend ways to save costs on all travel bookings. While the Director of DGS is not required to report before June 30, 2006, the Legislature may wish to be briefed earlier on the travel portal and other measures that they may take to economize travel by state employees.

1880 State Personnel Board

The State Personnel Board (SPB) is responsible for California's civil service system. SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor proposes expenditures of \$19.2 million (\$4.0 million General Fund) and 132.8 positions for the SPB – an increase of \$728,000.

Major Budget Proposals

Augmentation of Reimbursement Authority. The Governor proposes a reimbursement authority augmentation for the following purposes:

- State Employee Mediation Program. The SPB requests \$102,000 and one position to address an increase in mediation referrals workload.
- On-line Support. The SPB requests \$191,000 and 2 positions to provide additional assistance to departments with the on-line system.
- Administrative Support. The SPB requests \$102,000 and 1 position for additional administrative support.

1900 Public Employees' Retirement System

The Public Employees' Retirement System (PERS) provides benefits to 1,016,982 active and inactive members and 431,901 retirees. PERS membership is divided approximately in thirds among current and retired employees of the State, schools, and participating public agencies. This budget item shows PERS benefit expenditures and revenues, with State support included as a "nonadd," because that cost is also included in department budgets. General Fund support for PERS is budgeted at \$1.365 billion in 2006-07 – an increase of \$30 million. PERS contribution rates are set by Control Section 3.60 of the Budget Bill, and PERS generally updates these rates at the time of the May Revision.

1920 State Teachers' Retirement System

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college system. This budget item shows STRS benefit expenditures and revenues, with General Fund support included as a "nonadd." General Fund support for STRS is budgeted in item 6300 – in the Education section of the budget. This year the Governor is not proposing any cuts to the State's STRS funds – with funding set at 2.5 percent of payroll for purchasing power benefits (\$597 million in 2006-07) and 2.017 percent of payroll for regular retirement benefits (\$482 million in 2006-07)

1955 Department of Technology Services

The Department of Technology Services (DTS) is the result of reorganization and consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The Department of Technology Services (DTS) serves the common technology needs of Executive Branch agencies and other public entities with accountability to customers for providing secure services that are responsive to their needs and represent best value to the state. A Technology Services Board provides governance and guidance to the DTS.

The Governor's budget funds 775.2 positions (no new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
Department of Technology Services Revolving Fund	\$239,420	\$238,161	-\$1,259	-0.5
Total, Fund Source	\$239,420	\$238,161	-\$1,259	-0.5

Key Budget Adjustments

Child Welfare System/Case Management System Application Hosting Move. The budget proposes \$4.0 million (DTS Revolving Fund) to enable the department to move this system from an IBM data center in Colorado to a state data center. The Administration asserts that this move is necessary to comply with a federal directive and protect the system in state.

Mainframe CPU Processing Capacity. The Governor's budget proposes \$5.7 million (DTS Revolving Fund) to purchase mainframe processing capacity in order to meet projected workload increases and upgrade software. DTS asserts that this capacity growth need is primarily driven by population growth and the corresponding impact on departments' IT needs.

Server Upgrades. The budget includes \$4.1 million (DTS Revolving Fund) to allow for the replacement of 45 UNIX and 70 Windows servers with 120 new Windows servers and 10 UNIX servers.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, and Managed Health Care. Transportation-related departments are included in the Transportation section of this overview. Departments with major budget changes are highlighted below.

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees departments within the Agency. In addition, the Secretary's Office oversees smaller programs, such as the Small Business Loan Guarantee Program and the Film Commission, which are budgeted directly in the Secretary's Office.

The Governor proposes total expenditures of \$29 million (\$15.6 million General Fund) for the Office of the Secretary – an increase of \$3.3 million.

Major Budget Proposals

Small Business Loan Guarantee Program. The Governor proposes the following adjustments to the Small Business Loan Guarantee Program:

- **Loan Repayment.** The Administration proposes to repay the \$10.7 million loan (including interest) for the loan made from the Program to the General Fund in 2002-03.
- **Chrome Plating Program.** The Administration proposes to place the Chrome Plating Program, established by AB 721 (Chapter 695, Statutes of 2005), within the Small Business Loan Guarantee Program.

California Travel and Tourism Commission. The Governor proposes a General Fund augmentation of \$2.7 million to increase the state's contribution to the Commission to \$10 million. The Administration indicates this augmentation would leverage an additional \$4 million in private sector funds, bringing the total marketing budget up to \$25 million, of which \$10 million would go directly to advertising. In addition, as part of the justification for a General Fund augmentation in the current-year, the Administration indicated increased revenues at a 12-to-1 benefit-cost ratio.

Film Commission. The Governor proposes the following adjustments to the Film Commission budget:

- **Information Technology and Outreach.** The Administration requests an on-going General Fund augmentation of \$80,000 to support the existing on-line permitting system and to increase outreach efforts.
- **Film Promotion and Marketing Fund.** The Administration requests an on-going appropriation of \$10,000 (Film Promotion and Marketing Fund) in accordance with AB 1437 (Chapter 168, Statutes of 2005), which created the fund. Fund revenues will be derived from the sales of location library documents, photocopying, and other film-related informational

documents in addition to moneys from any and all public or private sources that support the purposes of the legislation.

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor proposes total expenditures of \$51.8 million (no General Fund) - an increase of \$6.4 million from the current year.

Major Budget Proposals

Grant Assistance Program (GAP). The Governor proposes an augmentation of \$1.7 million and 3 positions to increase the Department's grants to local law enforcement agencies to \$3 million. Assembly Bill 428 (Chapter 120, Statutes of 2005), found that the GAP program was a successful law enforcement program and that annual funding should be no less than \$1.5 million and no more than \$3 million.

Overtime Augmentation. The Governor proposes an augmentation of \$1.7 million to fund overtime costs associated with additional enforcement and licensing efforts.

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) regulates depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad, and business and industrial development corporations.

The Governor proposes total expenditures of \$24.7 million (no General Fund) - an increase of \$1.2 million from the current year.

Major Budget Proposals

Additional Examiners. The Governor proposes to augment the budget by \$416,000 to add 4 Examiner positions. The Department indicates this additional staff is needed to address homeland security, terrorism financing, and money laundering.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries.

The budget is proposed at \$31.7 million (no General Fund), an increase of \$996,000. No budget change proposals were submitted by the Administration.

Major Issue

Investigator Positions. The *Governor's Budget Summary* alludes to the 2006 audit of the Department's activities by the Bureau of State Audits. The Department eliminated all its Investigator positions in 2003-04 as part of its plan to reduce positions to comply with Control Section 4.10 of the 2003 Budget Act. Concerns have been raised over the reduction in consumer protection associated with the elimination of the investigation function. The audit should provide guidance concerning whether the Investigator positions should be reestablished in the Department's budget.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$477.5 million (\$16.8 million General Fund) in total expenditures for the department – a decrease of \$176.4 million. The large reduction is due to the dwindling amount of unexpended bond funds from the Emergency Shelter Trust Fund Act of 2002 (Proposition 46).

Major Budget Proposals

Office of Migrant Services. The Governor proposes to augment General Fund support by \$3.4 million (\$1 million ongoing) for reconstruction at two migrant center child care buildings and ongoing operational subsidies and routine repair costs.

Emergency Housing Assistance Program (EHAP) Cut. The Governor proposes an \$864,000 General Fund reduction for EHAP funding that reduces state support for the program to \$3.1 million. The EHAP provides funds for basic homeless shelter operating costs such as rent, utilities, and salaries of core administrative staff through minimum county allocations of \$30,000.

2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$43.3 million (no General Fund) in total expenditures for the Department – an increase of \$8.8 million.

Major Budget Proposals

Enforcement Program. The Governor proposes to augment funding by \$2.7 million and 33 positions in the Enforcement Program. The Department indicates this funding would address the significant and sustained growth in the licensee population since 1997-98.

Baseline Workload Adjustments. The Governor proposes to augment funding by \$2.3 million to fund cost increases due to increased volume of examinees, licensees, and related enforcement complaints. Funding would cover off-site examinations (\$647,000), credit card processing fees (\$36,000), postage (\$193,000), and Office of Administrative Hearing costs (\$1.5 million).

Information Technology. The Governor proposes four information technology (IT) augmentations:

- **Electronic Examinations.** The Department requests \$1.3 million and one position for year-one costs for a four-year IT project with a total cost of \$4.7 million.
- **Interactive Voice Response (IVR).** The Department requests \$133,000 and one position for year-one costs for a three-year IT project with a total cost of \$2.5 million.
- **IT Replacement.** The Department requests \$1.4 million for year-one costs for a four-year IT project with a total cost of \$2.7 million.
- **eLicensing Support Position.** The Department requests \$124,000 and one position to be dedicated to eLicensing development, and Web system enhancement and maintenance.

2400 Department of Managed Health Care

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system.

The Governor proposes \$41.5 million (no General Fund) in total expenditures for the department – an increase of \$5.5 million.

Major Budget Proposals

Enforcement Program. The Governor proposes to augment funding by \$3.8 million and 17 positions to conduct financial solvency oversight of risk bearing organizations and ensure prompt payment of health care provider claims.

GENERAL GOVERNMENT

8260 California Arts Council

The Arts Council serves the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community.

The Governor proposes expenditures of \$5.1 million (\$1.1 million General Fund) and 19.3 positions for the Arts Council – an increase of \$1.8 million. The requested increase in expenditures is supported by higher revenue from Art License Plate sales and renewals. The Art License Plates (art-themed car license plates) have been around since 1993; however, SB 1213 (Chapter 393, Statutes of 2004) increased the cost of the plates – leading to an annual revenue increase of about \$2.8 million. The Council proposes to spend this additional revenue on the resumption of local-assistance grants to support the arts. General Fund support for local-assistance grants existed up through 2002-03, but was subsequently eliminated by budget cuts.

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) represents the Governor as the “employer” in all matters concerning the State employer-employee relations. The Department is responsible for all issues related to salaries, benefits, position classification, and training. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process.

The Governor proposes expenditures of \$91.2 million (\$34.2 million General Fund) and 218 positions for DPA – an increase of \$5.5 million and 11 positions.

Major Budget Proposals

State Civil Service Classification and Selection Systems. The Governor proposes to augment funding by \$1 million (General Fund) to hire consultants to assess the current State Civil Service Classification and Selection System and develop a comprehensive strategy and business plan for implementation of reform. The Administration indicates the objective is “to improve the current systems so that they are flexible, dynamic, readily maintained, easily understood, meets legal requirements and provides the State with optimal return on human resources investment.”

Savings Plus Program. The Governor proposes to augment funding by \$1.7 million (special fund), increasing to \$3.2 million by 2010-11, to fund increased costs to pay the Third Party Administrator for the Savings Plus Program and the Alternative Retirement Program. The Third Party Administrator provides recordkeeping and trustee services to the State's 457, 401(k) and Part-time Seasonal and Temporary (PST) defined contribution retirement plans.

8620 Fair Political Practices Commission

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974. The objectives of the Political Reform Act are to ensure that election campaign expenditure data is fully and accurately disclosed so that the voters may be fully informed and to inhibit improper financial practices, and regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.

The Governor's budget funds 73.4 positions (including 14 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$6,111	\$7,002	\$891	14.6
Reimbursements	7	0	-7	-100.0
Total, Fund Source	\$6,118	\$7,002	\$884	14.4

Key Budget Adjustment

Staffing Augmentation. The Governor's budget includes \$700,000 General Fund and 12.2 positions to meet workload requirements stemming from new Legislative mandates and the Political Reform Act. Caseloads have increased considerably in recent years: in the enforcement division, new cases nearly doubled from 892 in 2003 to 1751 in 2004. Additional revenue in the \$90,000 to \$120,000 range is expected from enforcement actions. The requested positions will be assigned to enforcement, investigations, legal counsel, legal support, and administrative support.

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state.

The Governor's budget funds 14 positions (with no new positions) and expenditures as follows:

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$120,982	\$241,637	\$120,655	99.7
Motor Vehicle Account	1506	1551	45	3.0
Dept of Pesticide Regulation Fund	157	162	5	3.2
Total, Fund Source	\$122,645	\$243,350	\$120,705	98.4

Key Budget Adjustments

The Governor's budget includes no adjustments to the Commission on State Mandates program budget.

State Mandates Payments. The budget includes \$243 million (\$240 million General Fund) to local governments for mandate costs. That sum contains the following four distinct components.

- Payment of \$48.0 million for 35 known mandates.
- Payment of \$45.7 million for mandates still to be identified for payment in the budget year.
- An appropriation of \$50 million for mental health services to special education students (the AB 3632 mandate).
- An appropriation of \$98.1 million for the first year of a 15-year repayment cycle for past due state mandate claims.

The Legislature will carefully consider the cost estimates and policy implications of funding each mandate and closely scrutinize the repayment schedule to ensure it is accurate and complete.

State Mandate Suspensions. Twenty eight mandates are recommended for suspension in the budget year. The Legislature will carefully evaluate the cost savings and policy implications of suspending each of these mandates.

8940 Department of the Military

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to provide: (1) mission ready forces to the federal government as directed by the President, (2) emergency public safety support to civil authorities as directed by the Governor, and (3) support to the community as approved by proper authority. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense.

The Governor's budget funds 685.9 positions (including 17 new positions) and expenditures as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$33,931	\$38,139	\$4,208	12.4
Armory Discretionary Improvement Account	150	146	-4	-2.7
Armory Fund	2,200	0	-2200	-100.0
Federal Trust Fund	60,304	62,024	1720	2.9
Reimbursements	15,754	10,979	-4775	-30.3
California Military Family Relief Fund	250	250	0	0.0
Total, Fund Source	\$112,589	\$111,538	-\$1,051	-0.9

Key Budget Adjustments

Armory Maintenance and Repair. The budget includes \$3.5 million to allow the Department of the Military to address their armory infrastructure needs by making repairs, modernizing facilities, and ensuring compliance with environmental laws and building codes. The Administration estimates a total deferred maintenance backlog of \$35 million in the state's armories. The Legislature may wish to have a detailed plan to address that entire workload prior to approving this request.

Establishment of an Internal Control Office (ICO). The budget includes \$182,000 General Fund and two auditor positions to allow the Military Department to establish an ICO. These positions would be used to provide an ongoing audit of the Military Department's fiscal systems and practices. The Legislature may wish to consider the results of a Bureau of State Audits report on Military Department fiscal practices and oversight (due out in the spring) before acting on this proposal.

Headquarters Complex Land Acquisition. The budget includes \$1 million General Fund to acquire a two-year purchase option on 30 acres of land at the former Mather Air Base to build a new headquarters complex. Expected costs for the whole project (design through construction) are \$98.5 million.

Homeland Security Augmentation. The budget includes \$1.7 million (reimbursements) and 7 three-year limited term positions for training and exercise contracts proposed by the Office of Homeland Security.

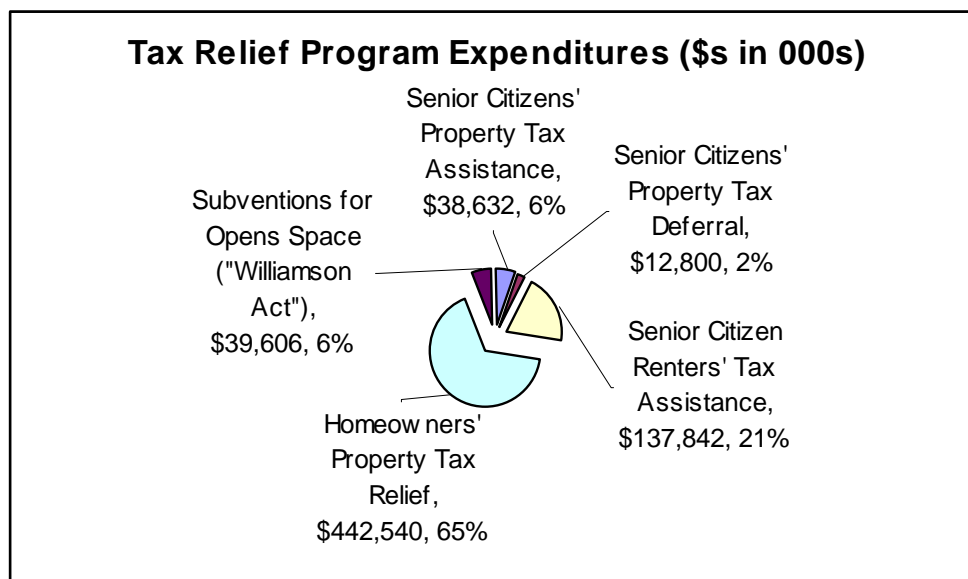
Issue

Position Control and Funding. Oversight hearings held by Budget Subcommittee #4 last year and subsequent media coverage has scrutinized departmental hiring practices and incoherent position establishment and funding. The Legislature may wish to explore those issues further to verify the best use of state funds and adherence to state personnel practices.

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief is provided to individuals who agree to hold their land as open space under the Williamson Act of 1965 and through payments to cities and counties to help defray revenues lost as a result of tax relief programs.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$664,144	\$671,420	\$7,276	1.1
Total, Fund Source	\$664,144	\$671,420	\$7,276	1.1



Key Budget Adjustments

Program Expenditure Adjustments. The Governor's budget includes a net reduction of \$3.9 million General Fund in the budget year for adjustments to reflect estimated participation in the Senior Citizens' Property Tax and Renters' Tax Assistance Programs, the Senior Citizens' Property Tax Deferral Program, and the Homeowners' Property Tax Relief.

Williamson Act. The Governor's budget fully funds the Williamson Act subventions for open space preservation at \$39.6 million.

9210 Local Government Financing

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

Local Government Financing expenditures are as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$1,333,865	\$262,857	-\$1,071,008	-80.3
Total, Fund Source	\$1,333,865	\$262,857	-\$1,071,008	-80.3

Programs				
Aid to Local Governments	\$1,205,331	\$60,148	-\$1,145,183	-95.0
Citizens' Option for Public Safety (COPS)	125,825	200,000	74,175	59.0
Special Supplemental Subventions	2,709	2,709	0	0.0
<hr/>				
Total, Programs	\$1,333,865	\$262,857	-\$1,071,008	-80.3

Key Budget Adjustments

Booking Fees. The budget proposes \$40 million in 2006-07 to offset a portion of the fees that cities and special districts must pay when they book suspects into county jails. Legislation is proposed to reform booking fee assessments and address city and special district concerns over cost calculations.

Rural and Small County Law Enforcement Grants. The budget fully funds the Rural and Small County Law Enforcement Grants subvention at \$18.5 million. This program provides \$500,000 in grants to 37 rural counties.

Juvenile Justice Crime Prevention Act (JJCPA). The budget includes JJCPA program funding of \$100 million—the programmatic equivalent of last year’s appropriation—but a \$74 million funding increase. Current year funding of \$26 million reflects a one-time adjustment to the annual allocation of JJCPA funds based on actual cash needs during the April 1, 2006 to March 30, 2007 grant cycle. This one-time adjustment saved \$74 million in the current year.

Disaster Subventions. The proposed budget includes disaster relief funding of \$1.6 million for subventions to communities affected by mudslides and severe storms in 2005. This funding is pursuant to legislation enacted in the 2005 session.

Citizen’s Option for Public Safety (COPS). The proposed budget maintains COPS program funding at \$100 million. This program provides discretionary funding on a per capita basis for local police departments and sheriffs for front line law enforcement (with a minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

Issue

Property Tax Administration Program. The Governor’s budget does not include funding for the Property Tax Administration Program (PTAP), a program last funded in 2004-05 at \$60 million. The Governor’s Budget Summary includes a statement that the Administration will work with the Legislature and local governments on alternatives to creating a new PTAP program in the 2007-08 budget. Considering the significant fiscal benefits to both local government and schools, the Legislature and counties will want to ensure that the level of service provided by local tax collectors is appropriate.

9800 Employee Compensation

The budget proposes \$382.5 million (\$203.2 million General Fund) to fund compensation and benefit adjustments for existing contract obligations for state employees. Also included in this augmentation is funding for medical staff in the California Department of Corrections and Rehabilitation as a result of a federal court order in the *Plata v. Schwarzenegger* lawsuit. No increased costs, or savings, are budgeted for bargaining units with expired or expiring agreements (the majority of bargaining unit agreements have expired or will expire before July 1, 2006).

9840 Augmentation for Contingencies and Emergencies

Each year, the Budget Act includes appropriation items in Item 9840 to be used to supplement departments' appropriations that are insufficient due to unanticipated expenses or emergency situations. There are three separate appropriations, one for each fund type - General, special, and non-governmental cost funds. These appropriations are allocated to other departments by the Department of Finance (with Legislative review) based upon the determination of need.

Funding for this item is as follows:

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Fund Source				
General Fund	\$19,009	\$49,000	\$29,991	157.8
Other Unallocated Special Funds	10,974	15,000	4,026	36.7
Various Other Unallocated Non-Governmental Cost Funds	14,874	15,000	126	0.8
Total, Fund Source	\$44,857	\$79,000	\$34,143	76.1

Issue

The Governor's budget includes no adjustments to this item. Because this item is only in its second year as a replacement mechanism to the former Control Section 27.00 deficiency process, the Legislature will want to carefully consider whether the Item 9840 budget bill language should be amended to ensure that only true emergencies are funded through this item.

Budget Control Sections

Control Section 3.45 and Control Section 4.05: Unallocated Reductions. The Governor's Budget includes \$308 million in unallocated reductions to departments' state operations budgets: \$58 million through a one percent cut to salaries and wages budgets (and associated expenditures) via budget Control Section 3.45, and \$250 million in unspecified reductions through budget Control Section 4.05. These reductions can be separated into four major components.

- In the current year, \$50 million would be realized by working with Agency Secretaries to identify reductions. The Administration asserts that authority for this reduction is based on end of year savings which are normally not recognized until the subsequent year. This proposal would advance the recognition of those savings into the current budget year.
- In the budget year, \$100 million will be achieved through departmental savings to be identified. Authority is provided through Control Section 4.05.
- An additional \$100 million in the budget year, this time citing intent language included in Control Section 4.05 of the 2005 Budget Act. That language asserted that the intended use of those savings would be to increase the General Fund reserve by the end of 2006-07. As written in Control Section 4.05 of the proposed budget, savings will evidently not result in an increase to the General Fund reserve.
- A total of \$58 million in savings are anticipated by providing agency secretaries with target reduction goals of approximately one percent of departmental salaries and wages costs. Savings will be achieved primarily through eliminating vacancies, but also through nonsalary reductions to staff benefits and operating expenses.

These proposed reductions follow unallocated reductions made in Control Section 4.10 of the 2004-05 Budget Act and Control Section 4.05 of the 2005-06 Budget Act. Departments have been directed to reduce budgets by using layoffs, hiring freezes, procurement reductions, or other administrative means. Similar to last year, when more than \$75 million of unallocated reductions were rejected by the Legislature, the Budget Subcommittees may wish to carefully consider the impacts of these reductions *on a department by department basis* to ensure that legislative priorities are unaffected.

As shown below, unallocated reductions as a budget balancing mechanism have become an increasingly popular budget balancing mechanism with this Administration. However, as opposed to the information provided to the Legislature in budget change proposals, relatively little information is provided to the Legislature detailing the programmatic impact of unallocated reductions.

Year	Proposed Unallocated Adjustment	Comments
2004-05	\$58,000,000	From Control Section 4.10 of the 2004-05 Budget Act. One-hundred-and-fifty million was originally proposed.
2005-06	\$225,000,000	Includes: <ul style="list-style-type: none"> • Estimated \$75 million <i>ongoing</i> savings from department specific reductions (decreased from \$150 million originally proposed). The actual figure is expected from Finance in early February. • \$100 Million from Control Section 4.05 of the 2005-06 Budget Act • \$50 million included in Governor's 2006-07 proposed budget
2006-07	\$258,000,000	Includes: <ul style="list-style-type: none"> • \$200 million from proposed Control Section 4.05 • \$58 from proposed Control Section 3.45
Estimated Three- Year Total:	\$541,000,000	Total unallocated reductions proposed since 2004-05. Ongoing savings are estimated to be \$133 million of the total.

Control Section 3.65: Minimum Wage Adjustment

The budget proposes \$10.3 million General Fund and authority to augment six departments' budgets through a control section. This augmentation reflects a proposed statewide minimum wage increase and its impact on six departments who have a significant number of minimum wage-paid employees. The Governor has proposed legislation to make a 50-cent increase to the minimum wage (to \$7.25), effective September 1, 2006.

Control Section 4.06: Mid-Year Budget Correction Authority

The proposed budget bill includes a Control Section 4.06 which, if enacted, would enable the Governor to make mid-year reductions to General Fund appropriations. Reductions would be limited to 25 percent of a total appropriation and require notification to the Legislature within 30 days of the reduction occurring. The Administration asserts this authority was entrusted with the Governor prior to 1984.

Control Section 35.60: Budget Stabilization Account (BSA) Transfer to the General Fund.

The Administration proposes to allow the Director of DOF to make transfers from BSA to the General Fund reserve whenever s/he determines that a shortfall will occur in the General Fund reserve (with Legislative notification afterwards). Based on the poor condition of the General Fund reserve (\$153 million of a \$98 billion General Fund budget), if this Control Section is enacted, the Director has stated that he would immediately transfer \$460 million from the BSA to the reserve. This action would achieve a budget year reserve of \$613 million.